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 First steps toward scan-based trading.
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ABSTRACT: Scan-based is broadly defined as the use of daily **point** -of-
 sale scanner data to manage payment, **promotion** , and replenishment of
products in the supermarket. Used efficiently, scan-based trading can
reduce inventories, cut labor expenses, streamline and hasten distribution,
eliminate unnecessary paperwork, and subsequently generate savings for both
the **retailer** and **manufacturer** . In Jan 1997, the Grocery **Manufacturers**
of America sponsored a testing on scan-based payment. Although the test was
successful, those who oppose scan-based trading contend that it will only
give **retailers** huge technological and cost problems.

TEXT:
    A GMA-backed test at H-E-B shows scan-based trading can work. But
questions about costs and the relative benefits to **retailers** and
 manufacturers leave unclear the issue of just how it would work.
    Take your pick: scan-based trading is a) already happening, b) coming
soon to a supermarket near you, c) about as likely as hell freezing over.
    The answer is all of the above. The only surety in this can of golden
worms opened by the Grocery **Manufacturers** of America is that scan-based
trading is a good idea. But the implementation, ah, there's the rub.
    First, what is scan-based trading? Very broadly, it's using daily **POS**
scanner data to manage payment, **promotion** and replenishment for products
in the supermarket. It holds the potential to reduce inventories, cut labor
costs, streamline and speed up distribution, shred mountains of paperwork
and generally save money for **retailer** and **manufacturer** alike.
    That is, if you're a DSD **manufacturer** . And if, as a **retailer** , your
 POS and information systems are on a par with those of H-E-B. Unless, of
course, you decide to bypass the scan-based trading best practices
guidelines now being developed by GMA. In that case, efficient market
services (ems), a real-time data supplier, can hook you up for scan-based
trading tomorrow.
    The scan-based trading concept has been bandied about for years, but
technological snags, the traditionally rocky **manufacturer** / **retailer**
relationship and legitimate business issues confined it to the realm of
"great idea, but ..." All those issues remain, but thanks to GMA they're
now on the table and the system itself has had one successful, albeit
extremely limited, test.
    For 20 weeks beginning last January, seven major DSD **manufacturers** –
Anheuser-Busch, Coca-Cola, Earthgrains, Frito-Lay, Miller Brewing, Nabisco
and PepsiCo – let three of H-E-B's San Antonio stores pay for product based
on scanner movement. The test was sponsored by GMA and designed and
monitored by Prime Consulting (Bannockburn, Ill.).
    This pilot test concentrated almost solely on scan-based payment. The
system tested the following:
    * Elimination of back room check-in. That reduced labor costs, cut
out bottlenecks and allowed **manufacturers** 24-hour delivery access.
    * A paperless, scanner-based information flow. That was a prelude to

cutting out invoice discrepancies, billbacks and mounds of paperwork.
     * A perpetual inventory system, in which each store's deliveries were
mated to its sales.
     How much, in terms of dollars, this saves **manufacturers** remains a
matter of conjecture. However, the final report on the test, due out this
month, should have some numbers, promises Dan Raftery, president of Prime
Consulting.
     But for H-E-B, the test augured big savings. "If we can move 50
percent of our DSD sales to scan-based trading, our inventory investment
would decline by 10 percent to 12 percent," says Scott McClelland, senior
vice president of marketing. "(That) translates to a two-point improvement
in our corporate return on assets."
     McClelland, along with Randy Whaley, vice president of customer
development at Frito-Lay, presented these numbers as part of a preliminary
report on the test at the GMA conference at The Greenbrier in June. The
result was a furious salvo of questions and frantic scribbling of notes
among **retailers** in the audience.
     Few, though, are capable of implementing scan-based trading anytime
soon. "If they devoted the necessary resources, about 30 percent (of
 retailers) could do it within a year or two," Raftery estimates. The more
recently a **retailer** or wholesaler upgraded its **POS** system, the faster
it can climb aboard, he notes, adding that many are in the midst of such
upgrades as part of their programs to exterminate the Millennium Bug. As a
result, he predicts, large-scale scan-based trading "could happen by 2000."
     Scan-based trading as defined under GMA standards, that is. Mike
Spindler, executive vice president of sales and client services at eros,
says his firm is "doing about a dozen scan-based payment projects right
now." The Deerfield, Ill. firm draws daily **POS** data from more than 4,000
stores accounting for more than 25 percent of grocery all-commodity volume.
     A Burden on **Retailers**
     Spindler argues that scan-based trading as currently being structured
by GMA will place a huge technological and cost burden on **retailers** .
     First, he notes, **retailers** will have to poll their **POS** systems in
every store every day. If they're currently pulling down data once a week,
for example, they'll need seven times the communication throat and seven
times the computer storage space to go daily. And to ensure the cleanest
possible data, they've got to get every store every day – which means
they'll need operations staffs to plug the inevitable holes.
     Then there's getting the data itself. GMA standards call for culling
two pieces of information: unit movement and price paid. "Very few
 retailers pull back price paid, because they have a price file at
headquarters," Spindler says. "But chances are, the price (charged at the
store) is different." **Coupons** , manager's pricing discretion and deals are
just some of the ways the price can change.
     And finally, there's the processing of the data. GMA calls for the
 POS data to be run through the **retailer** 's legacy accounting system to
pick up cost information, then put into an electronic data interchange
(EDI) format and shipped off to the **manufacturer** . "No EDI system exists
to support this level of transaction," Spindler says.
     Manufacturers face similar technical challenges. "We have to become
full EDI-capable," says Martha Uhlhorn, vice president ECR and sales
technology for Earthgrains. "Our problem is our legacy systems. They have
to be able to accept the EDI transaction and then bridge into other systems
like accounts payable." That means hiring programmers to get all these
computers to talk to one another. And like Spindler, Uhlhorn suspects that
the huge amount of data involved in daily scan-based trading will
eventually make computer storage capacity an issue.
     Raftery argues that none of these challenges is insurmountable,
pointing to the simple fact that H-E-B and seven **manufacturers** just did
it. While he admits that running **POS** data through a legacy accounting
system to pick up cost information isn't something many **retailers** can now
do, "it's not rocket science," he says. "All we're talking about is
matching two files. We know a few **retailers** who are very close to being
able to do it."

As to why GMA standards call for such a procedure, "It's the only way to get all the information," he says. "We have to know what the price (the **retailer**) has agreed to pay today is."

Ems, whose own instore computers draw data directly from scanners, doesn't draw down cost information for its scan-based trading clients. In these cases, the **manufacturers** and **retailers** involved have agreed on a standard price and ems simply furnishes unit movement data. While that works fine for products bought on consignment, Spindler admits it isn't going to work for items whose prices change constantly, such as snacks and soft drinks.

While there's general agreement that cost data has to be part of the equation and that somehow it's going to have to be merged with **POS** data and placed into an EDI format, opinions diverge on how it will happen. Raftery argues that the **retailers** will do it. Spindler says it will cost too much. Instead, he predicts, "Some network vendor will come along and make a business out of this."

'Payment Network'

Sooner than anyone might expect, he adds. "There are several companies looking at it," he says, "and plans are more than on the drawing board."

Such a "payment network" would operate as a central site for cost information. **Retailers** would transmit their cost information to the network, which would handle the tasks of lining it up with scan data and packaging it into an EDI format for **manufacturers** . This would relieve **retailers** of the task of developing and/or buying new computer software and hardware to facilitate scan-based trading.

But this would mean **retailers** would have to share their cost information with a third party, which many believe is an event that falls into the "when hell freezes over" category. "There are a lot of precedents," Spindler responds. He cites MSA, a Pittsburgh-based company that collects tobacco products sales information from **retail** and feeds each **manufacturer** its brands' stats.

There's also QSR, which Spindler describes as an "EDI-based product catalog" in the apparel business. Some **manufacturers** place product information in the QSR catalog meant solely for a specific account, like Wal-Mart, and other **retailers** don't get access to those **UPC** codes. "EDS has a similar network in the agricultural/chemical business," he adds.

In short, Spindler contends, confidentiality isn't really a problem. He notes that multiple supermarket **retailers** already share data with the same third-party suppliers, ems among them.

But whether a third-party supplier appears or **retailers** set up their own systems, scan-based trading is viewed as inevitable by many observers. "The technology's not going to be a deal-breaker," says Scott Taylor, vice president of sales and marketing at Trade Dimensions (Stamford, Conn.). "But there's a lot of trust that has to go on."

Trade Dimensions' TDLinx product essentially a universal "tag" that attaches to any **manufacturer** , **retailer** or third-party data base of stores and allows everybody to match up stores despite different internal numbering systems - has obvious applications in scan-based trading. Among other things, it would be useful for **manufacturers** and **retailers** to be talking about the same store or store route when discussing problems with shrinkage.

Because the GMA test involved eliminating back room check-in and centered on products like soda and bread that are sold through non-scanned venues like vending machines or the deli, shrink was expected to be a big problem.

It wasn't. The shrink level in the test was 0.5 percent in units and just 0.1 percent in dollars.

But the pilot test participants are taking that with a grain of salt. Notes one: "A three-store test like this is surely going to succeed."

Even the world's stupidest thief would have thought twice about trying to pull anything with seven top **manufacturers** , H-E-B, GMA and Prime Consulting all piled into just three stores. And all the organizations, of course, had their best and brightest on board for the test.

GMA isn't blind to this. Among the "important components" to be

"ironed out" between the preliminary report and the final version in August are "time investment for store-level inventories, process for accurate perpetual inventory systems and accounting for product that is not scanned, such as soda vending machines."

All of the **manufacturers** involved in the GMA test sat down beforehand with H-E-B and hammered out agreements on sharing shrink risk, operating hours and similar key points. But agreements, like battle plans, rarely survive an encounter with the enemy.

"I think we'll have to develop policies on the fly," predicts Earthgrains' Uhlhorn, adding that the unexpected makes it all the more important that those upfront agreements be "top to top."

Acting as Partners

"You need to have dedicated resources on both sides," she says. "And you have to come in with your hands at your side. No matter what bumps you hit, you have to resolve them as partners, not adversaries."

And that brings us back to the uncertainty about how much **manufacturers** would benefit from scan-based trading.

"If Coke or Frito-Lay wants to play the game, nothing in terms of technology is standing in the way," says SUPERMARKET BUSINESS technology editor Richard Shulman. "The issue is trust and what's in it for each side."

Shulman believes there's more in scan-based trading for the **retailer**. "The **retailer** eliminates an enormous administrative burden," he says. "The **retailer** doesn't have to receive. The **retailer** doesn't have to match the weekly summary.

"But the only direct advantage for the supplier is that the driver spends less time at the store." The drivers still have to account for the product that was on their trucks, and the paperwork still has to be done at the bottler or distributor. "It doesn't seem equal," Shulman says.

And then there's the payment issue. "If (the supplier) isn't getting paid for five days, what does that cost him?" Shulman asks. "And how much does (the **retailer**) gain?" **Manufacturers** , Shulman bets, will want a piece of that gain.

And some agreement, he continues, will be found. Like everyone else, Shulman believes scan-based trading is coming. "It will happen as soon as we get ground rules for sharing the benefits," he says.

Finally, what about outside DSD? Is there any future for scan-based trading there? "It depends on where a company makes its money," says Prime Consulting's Raftery. "Warehouse products could easily be adapted to this, especially items with a constant flow.

"But a wholesaler's not going to make money on scan-based trading - he doesn't have scanners. For a self-distributing **retailer** , it makes more sense to do this with high-volume products. Later, as the system develops, you might ask why you want to bother owning even slower-moving items for a week?

"(Scan-based trading) works (for DSD) because you have a body on the street who's merchandising as well as delivering. Administration of that network is hugely complex. You aren't going to get the same savings on a warehouse operation."

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